

Risk of Retirement Wealth Shortfall for Typical Retiree Households

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- During this session, you will learn about research and approaches to determining retirement financial adequacy, worker and retiree attitudes regarding financial risk and how those attitudes have evolved over time since the financial crisis, and tools to help employers and individuals track retirement readiness.

A glimpse of the future

59

Number of countries that have raised social security ages in the past 10 years



60%

Expected U.K. DB plans that will have frozen accruals by 2019

48

Number of Fortune 100 companies that have no open DB plan for salaried employees

70

The legislated normal retirement age in Israel in the year 2014



76%

Workers say their company cut hours, workers, benefits, etc. in the past two years

27%

Percent of OECD population over 55



Big implications for employees and employers

Polling question:

Which of the following countries is aging most rapidly?



- A** China
- B** France
- C** Germany
- D** Japan
- E** United States

Implications for retirement attitudes

1

Workers are uneasy and uncertain about retirement.



2

People are staying in the workforce longer.



% of workforce 65+ increased
6% since 1990

3

Employees prefer more generous retirement benefits over higher pay when the benefits are guaranteed.

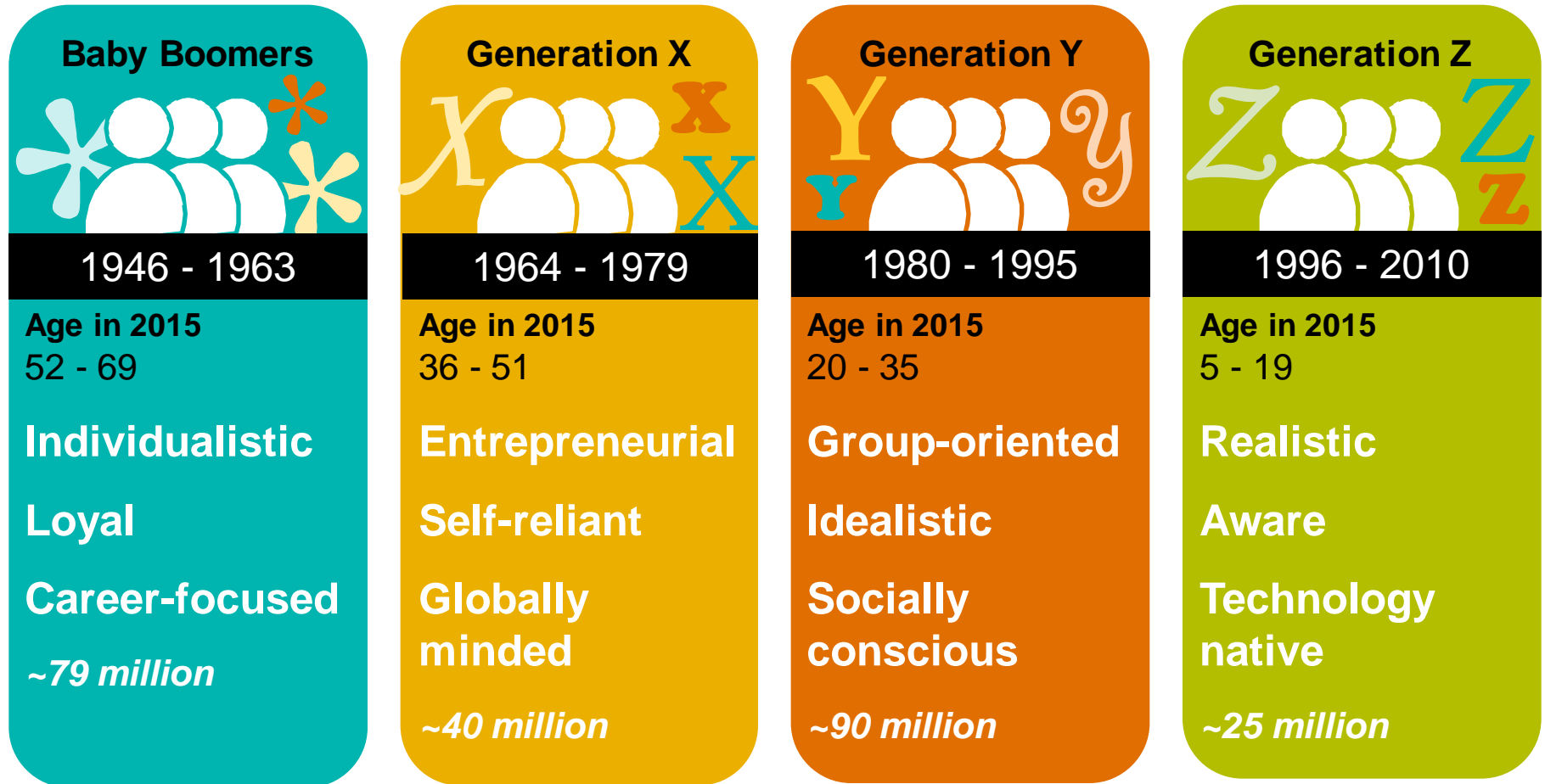


Number of workers saying retirement is important to attraction and retention remains higher than before the financial crisis.

Clear generational differences exist

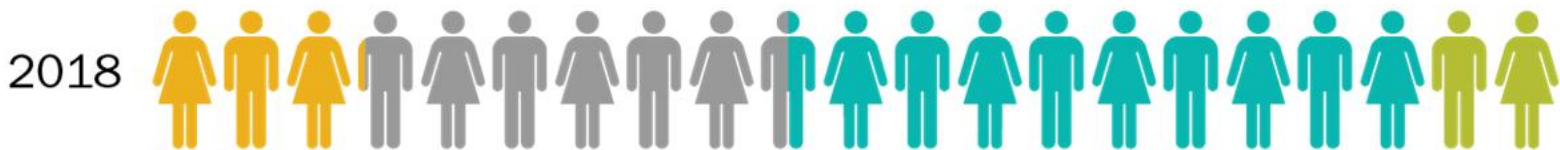
New demographics:

Gen Y has arrived — Gen X are emerging leaders — Gen Z is on the cusp



What will 2018 look like for your organization?

Global company population – By age



Lack of retirement readiness creates unpredictable outcomes

OVER

43%

of Americans agree that they “often don’t have enough money to make ends meet” ¹

nearly

50%

of Americans could not or probably could not “come up with” \$2,000 within 30 days ²

64%

of companies believe they offer adequate planning tools but only 15% believe a majority of their employees make good use of resources³

63%

of younger workers (under 40) agreed that their retirement program was an important factor in accepting their job³

1. Pew Research Center 2012 survey of American Values
2. EBRI Issue Brief #384 March 2013
3. Towers Watson Research

Mistakes many employers make along the way...

- 1 Thinking a TOOL is the SOLUTION
- 2 Rushing to judgment or the SILVER BULLET
- 3 Thinking that ONE SIZE FITS ALL
- 4 Believing the business can TAKE CARE OF ITSELF
- 5 Focusing on COST WITHOUT FUNCTION

How to get it right

Assess the changing spectrum of employees' goals and what they value

Analyze your plans' future abilities of aligning to those goals and preferences

Optimize employer dollars through design and keeping delivery costs low

Create a compelling total work experience that encompasses tailored benefit programs

Polling question: which of these actions most satisfies the mutual interests of employees and the company?

Effective Program



A

An extra employer contribution of 1% of pay?

B

Tax-effective saving for retiree medical (e.g., through an HSA rather than 401(k))?

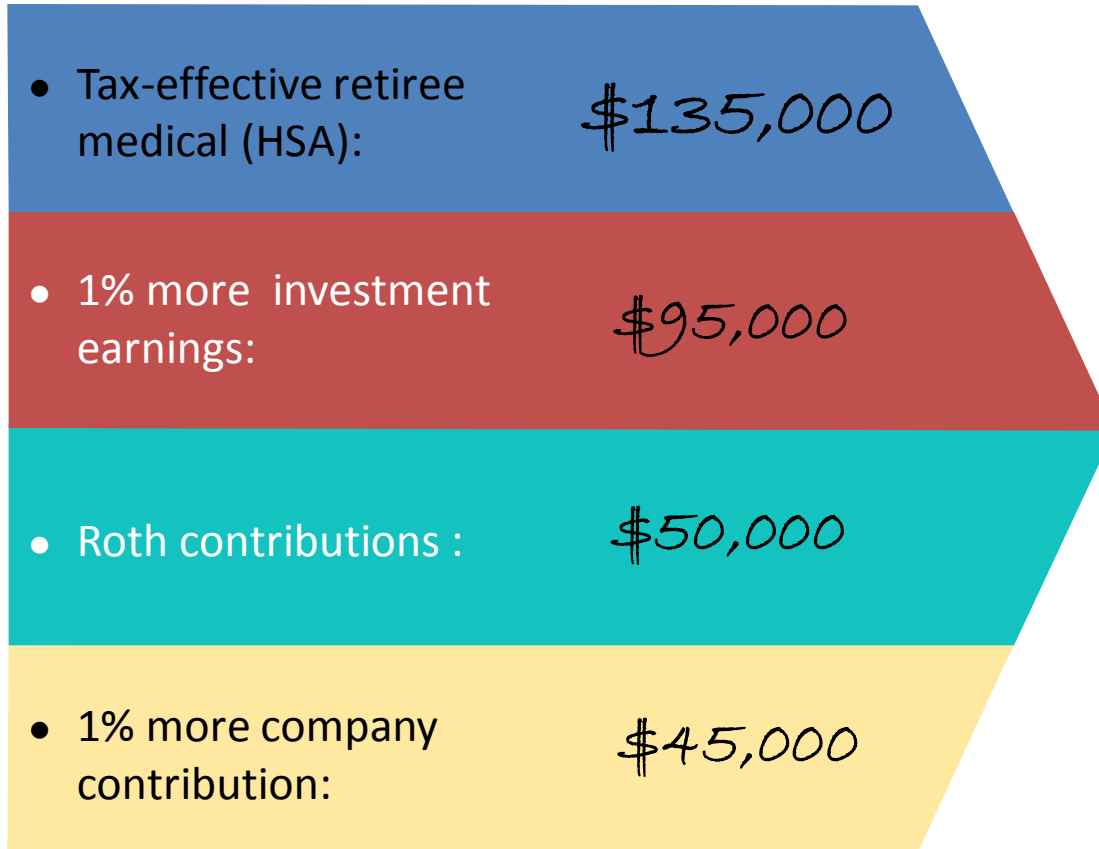
C

Roth 401(k) contributions rather than traditional 401(k)?

D

Improving pre-retirement investment returns by 1% per year?

Answer: for a \$40,000 worker age 35*

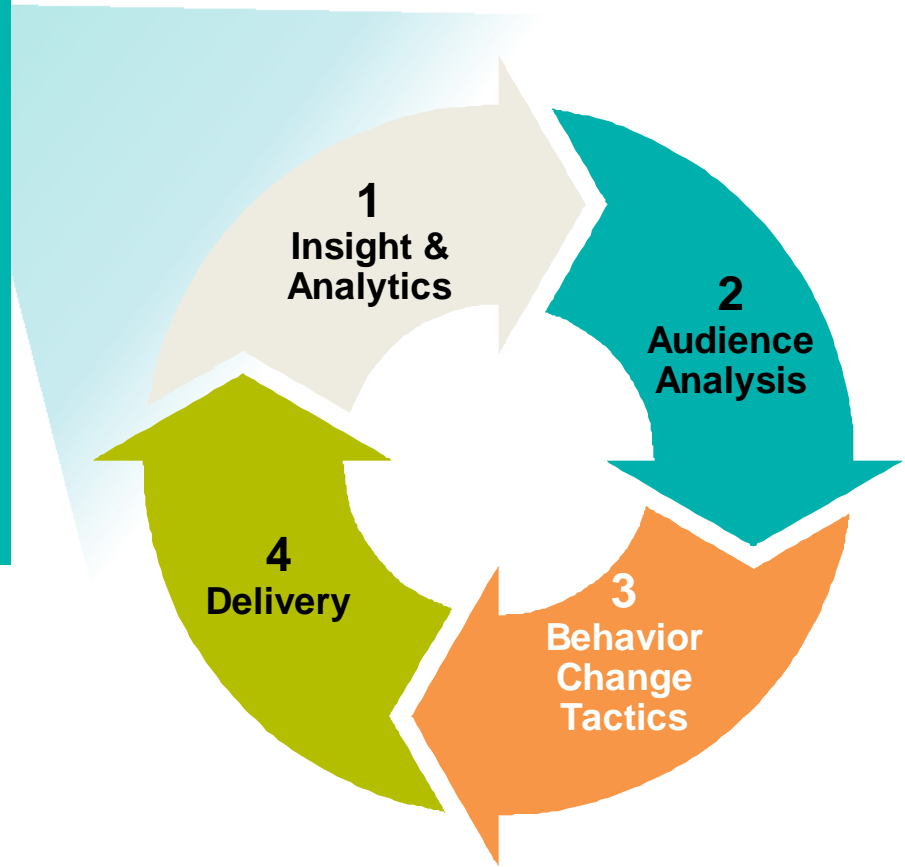


- It's more important to **help** employees with effective retirement planning than it is to **contribute** on their behalf
- Effective investment options and low overall expenses are **critical**
- With consumer-based benefit plans, the effectiveness of the retirement programs may depend more on **delivery** than on **design**

• Measured at retirement age 65
Assumptions: 80% replacement ratio, Investment return of 6%, CPI of 3%/medical CPI of 4%, Pay growth of 3%

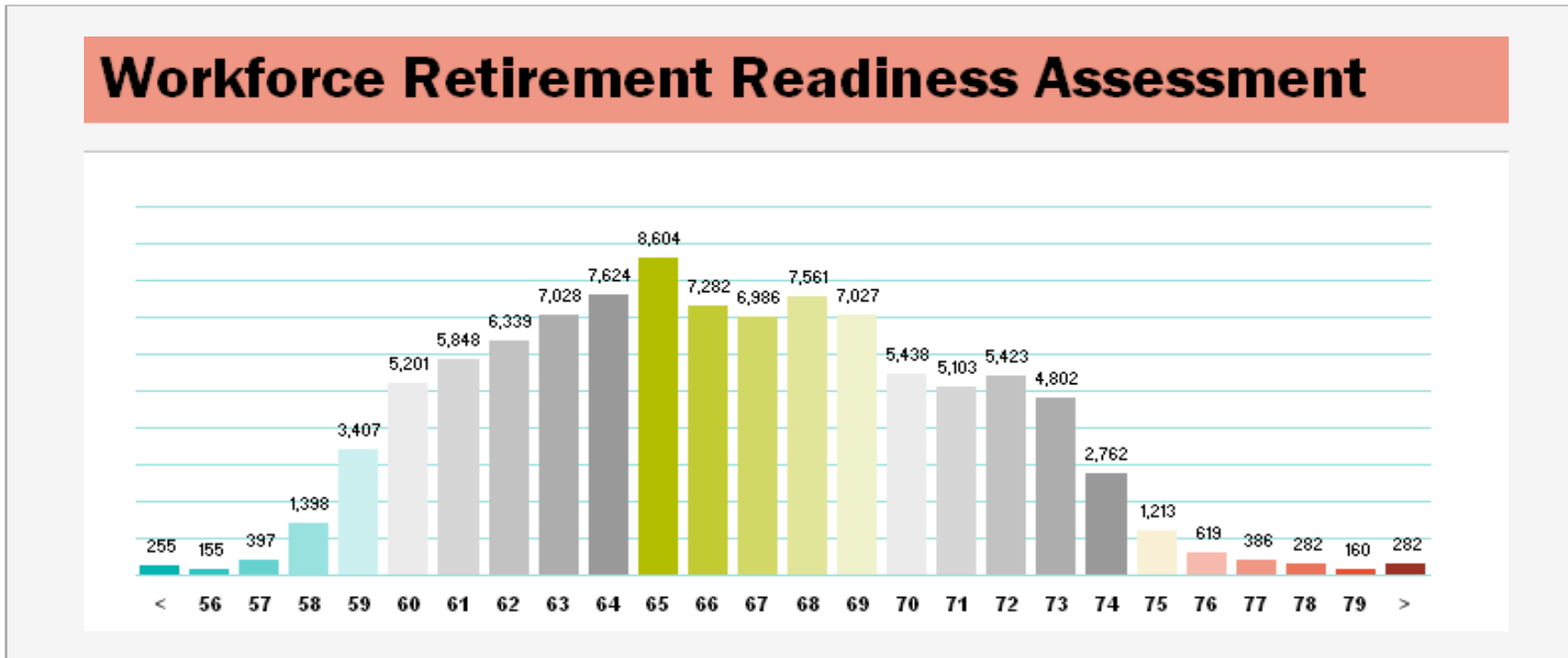
Employee expectations of support are getting higher

I expect you to know my situation...
Bring me smart suggestions...
Figure it out for me...
Tell me what I need to be doing...
Remind me...
Make it resonate...
Make it easy...



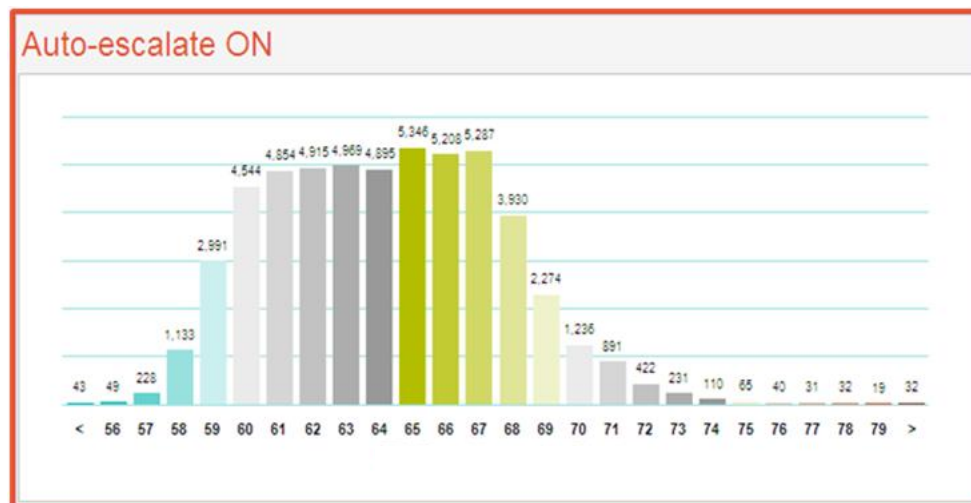
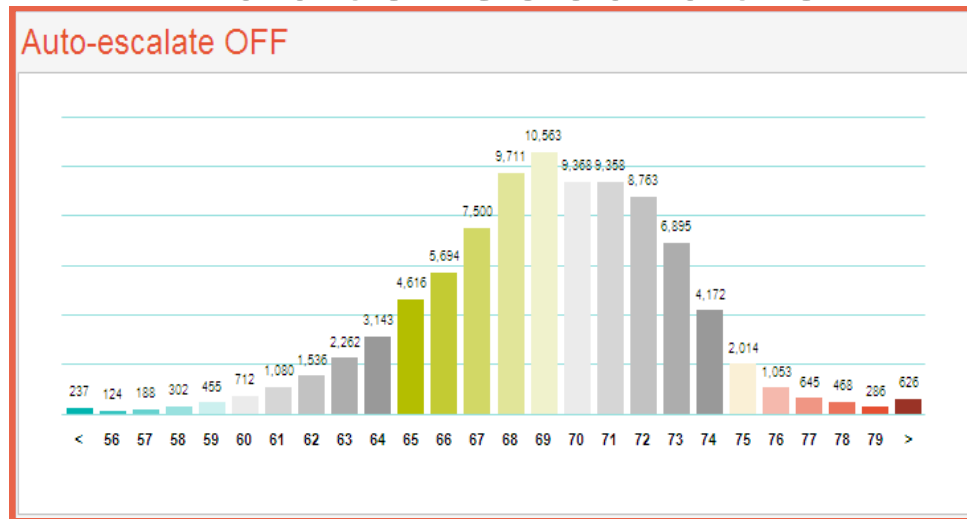
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Predictive tools can be used to assess future retirement readiness



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Analyze ways to fix gaps – for example, auto-escalation



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Global Benefits Attitudes Survey (2013/14)

The survey







- This study uses a new global survey to examine employees' preferences for financial security and how they have been reshaped in recent years
- Towers Watson surveyed 22,347 employees across 12 countries between June and September 2013
- Countries account for over 60% of global GDP (Source: IMF) and over 80% of global retirement plan assets (Source: Towers Watson, Global Pension Assets Study)
- All respondents are employed at large non-government establishments and represent all job levels and major industry sectors
- Results are weighted to match the national average of employees

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Global Benefits Attitudes Survey (2013/14)

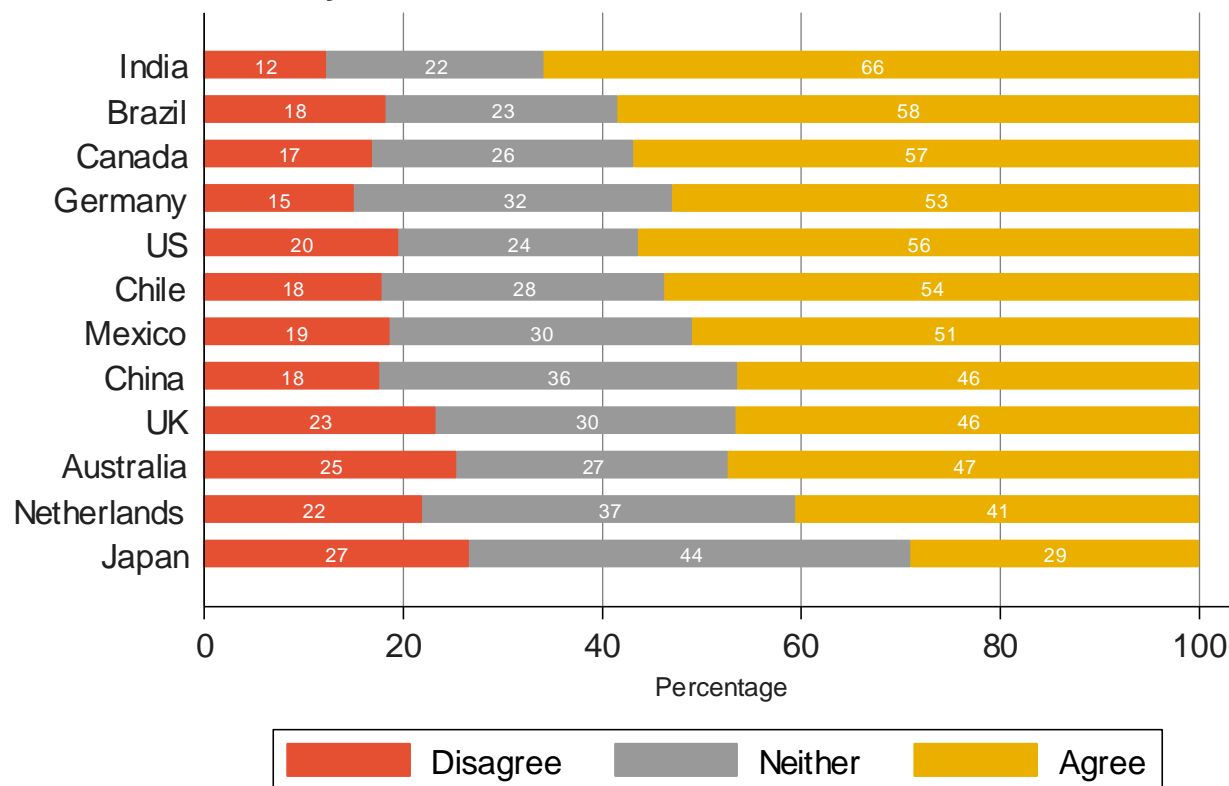
The data

- For the developed economies there is a good match to nationally representative data
- For developing economies the samples are more representative of urban and middle-class employees

	 Australia	 Brazil	 Canada	 Chile	 China	 Germany	 India	 Japan	 Mexico	 Netherlands	 UK	 United States
Responses	1017	1009	2048	1009	2070	2000	2006	2001	1085	1002	2030	5070
Average age	41.8	33.5	42.7	39	36.6	41.7	33.7	42.4	37.6	43.9	41.1	42.2
Female	45%	37%	38%	47%	44%	40%	39%	33%	30%	46%	42%	46%
Part-time	29%	5%	5%	6%	2%	8%	9%	17%	4%	27%	13%	10%
Average salary (US\$)	\$57,123	\$8,453	\$66,698	\$16,538	\$13,218	\$50,780	\$21,198	\$54,480	\$16,431	\$47,627	\$51,605	\$62,206

A heightened desire for retirement security in most countries

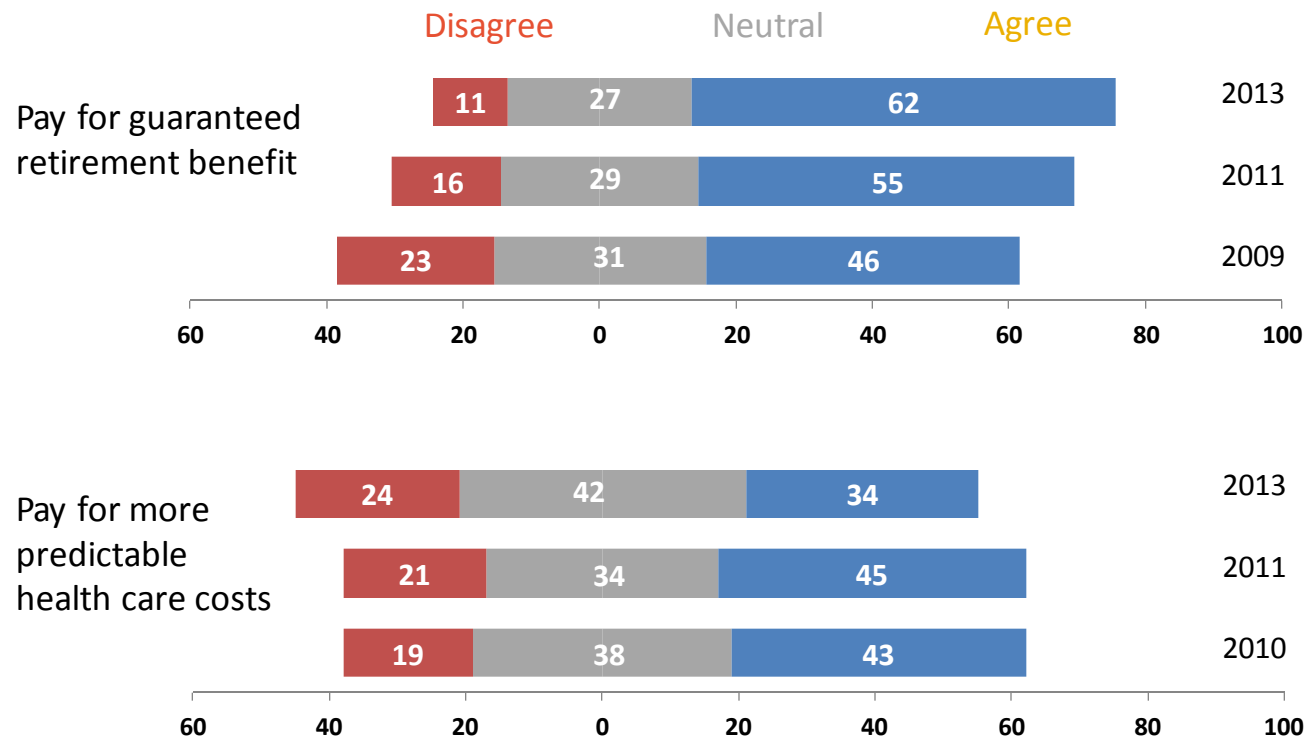
Retirement security has become a more important issue for me over the last 2 or 3 years



Source: 2013/14 Global Benefits Attitudes Survey.
Based on employees enrolled in a retirement plan.

Willingness to pay for more certain benefits growing stronger

I would be willing to pay a higher amount out of my pay each to ensure I have a guaranteed retirement benefit.



Employees willing to trade pay for retirement guaranties has risen by 16pps (vs. '09)

Conversely, number of employees willing to trade pay for more predictable health care costs has declined

Younger employees attraction to retirement guaranties increases by 30pps (vs. 2009)

Source: 2013/14 Global Benefits Attitudes Survey - U.S.

Agree: % stating "agree" or "strongly agree." Disagree: % stating "disagree" or "strongly disagree."

Guarantees and more generous retirement benefits grow in appeal, regardless of plan type and age

Willingness to pay more for guarantees in retirement and health care benefits.

	Age	DB Plan			DC Only		
		Feb. 2009	June 2011	July 2013	Feb. 2009	June 2011	July 2013
Guaranteed Retirement I would be willing to pay a higher amount out of my paycheck each month to ensure I have a guaranteed retirement benefit (e.g., \$1000 per month for life)	<40	39%	66%	69%	44%	51%	63%
	40s	50%	55%	61%	57%	53%	62%
	50+	51%	57%	63%	47%	60%	62%
Generous Retirement I would be willing to pay a higher amount out of my paycheck each month for a larger, more generous retirement benefit	<40	-	66%	65%	-	46%	58%
	40s	-	57%	56%	-	45%	60%
	50+	-	59%	62%	-	58%	55%

Retirement guarantees appeal to younger employees

Generous retirement is a top choice of all age groups

Rank the top 3 areas you would choose if offered a choice by your employer in the next year (where 1 is the most important, 2 the second most important, etc.)?

Percentage selecting in top 3

	Less than 40	Age 40s	Age 50+
1.	Pay	Pay	Pay
2.	Generous retirement	Generous retirement	Generous retirement
3.	Bonus	Generous health care	Generous health care
4.	Paid time off	Bonus	Bonus
5.	Generous health care	Paid time off	Paid time off
6.	Career advancement	Guaranteed retirement	Guaranteed retirement
7.	Flexible work-life	Career advancement	Predictable health care

Source: 2013/14 Global Benefits Attitudes Survey - U.S.
Based on full time employees enrolled in a retirement plan.